



REDACTED – FOR PUBLIC INSPECTION

VIA ECFS

June 27, 2017

Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Room TW-A325
Washington, DC 20554

**RE: ETS Telephone Company, Inc., SAC 442091
Submission of FCC Form 481 Annual Report
WC Docket No. 14-58 – ETC Annual Reports and Certifications**

Dear Ms. Dortch:

In accordance with the annual reporting requirements of 47 C.F.R. §§54.313 and 54.422, ETS Telephone Company, Inc. (“the Company”), Study Area Code 442091, hereby files its FCC Form 481 – Carrier Annual Reporting Data Collection Form. *The version of the Company’s FCC Form 481 submitted via the FCC’s Electronic Comment Filing System (ECFS) is a redacted version of the filing that contains no confidential information.*

Section 3005 of FCC Form 481 requires privately-held rate-of-return carriers receiving high cost support to attach a full and complete annual report of the company’s financial condition and operations pursuant to 47 C.F.R. §54.313(f)(2). ETS Telephone Company, Inc., by its authorized representative, hereby seeks confidential treatment of its financial annual report pursuant to the March 22, 2016 *Protective Order* in WC Docket Nos. 10-90 and 14-58.¹ The *Protective Order* specifically covers the information required by 47 C.F.R. §54.313(f)(2).

ETS Telephone Company, Inc. is providing to the Office of the Secretary, under seal, this cover letter and the FCC Form 481 filing which includes the confidential information that is being requested to be withheld from public inspection.

T (972) 387-4300
F (972) 960-2810

8750 N. Central Expressway
Suite 300
Dallas, TX 75231

Assurance, tax, and consulting offered through
Moss Adams LLP. Wealth management offered through
Moss Adams Wealth Advisors LLC. Investment banking
offered through Moss Adams Capital LLC.

¹ *Connect America Fund, ETC Annual Reports and Certifications*, WC Docket Nos. 10-90 and 14-58, Protective Order, 31 FCC Rcd 2089 (2016).

Each page of the Company's financial annual report and the financial summary page on the FCC Form 481 bear the legend, "CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER BEFORE THE FEDERAL COMMUNICATIONS COMMISSION."

The confidential information has also been submitted to the Universal Service Administrative Company through its E-File system as attachments to the FCC Form 481.

In the filing submitted via the ECFS, all pages containing confidential information bear the legend "REDACTED – FOR PUBLIC INSPECTION."

This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions except for the confidentiality markings.

The FCC Form 481 has also been filed with the Universal Service Administrative Company and with the relevant state commissions and Tribal governments, as appropriate.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Stuart Polikoff". The signature is fluid and cursive, with the first name "Stuart" and last name "Polikoff" clearly distinguishable.

Stuart Polikoff
Authorized Representative for
ETS Telephone Company, Inc.

SP/kr

cc: Devi Sarwal, ETS Telephone Company, Inc.

**FCC Form 481 - Carrier Annual Reporting
Data Collection Form**FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010>	Study Area Code	442091
<015>	Study Area Name	ETS TEL. CO., INC.
<020>	Program Year	2018
<030>	Contact Name: Person USAC should contact with questions about this data	Jonathan Baker
<035>	Contact Telephone Number: Number of the person identified in data line <030>	2812250522 ext.
<039>	Contact Email Address: Email of the person identified in data line <030>	jbaker@entouchsystems.net
	Form Type	54.313 and 54.422

<010>	Study Area Code	442091
<015>	Study Area Name	ETS TEL. CO., INC.
<020>	Program Year	2018
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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<210> For the prior calendar year, were there any reportable voice service outages? No

**(300) Unfulfilled Service Request
Data Collection Form**FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<300> Unfulfilled service request (voice)

0

<310> Detail on attempts (voice)

Name of Attached Document

<320> Unfulfilled service request (broadband)

0

<330> Detail on attempts (broadband)

Name of Attached Document

(400) Number of Complaints per 1,000 customers Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<030>	Contact Name - Person USAC should contact regarding this data	Jonathan Baker
<035>	Contact Telephone Number - Number of person identified in data line <030>	2812250522 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net
<400>	Select from the drop-down list to indicate how you would like to report voice complaints (zero or greater) for voice telephony service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize.	Offered only fixed voice
<410>	Complaints per 1000 customers for fixed voice	0 . 0
<420>	Complaints per 1000 customers for mobile voice	
<430>	Select from the drop-down list to indicate how you would like to report end-user customer complaints (zero or greater) for broadband service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize.	Offered only fixed broadband
<440>	Complaints per 1000 customers for fixed broadband	0 . 0
<450>	Complaints per 1000 customers for mobile broadband	

(500) Compliance With Service Quality Standards and Consumer Protection Rules
Data Collection Form

FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	j.baker@entouchsystems.net
<500>	Certify compliance with applicable service quality standards and consumer protection rules	Yes
<510>	Descriptive document for Service Quality Standards & Consumer Protection Rules Compliance	
<515>	Certify compliance with applicable minimum service standards	

**(600) Functionality in Emergency Situations
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<020>	Program Year	2018
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<035>	Contact Telephone Number - Number of person identified in data line <030>	2812250522 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net
<600>	Certify compliance regarding ability to function in emergency situations	Yes
<610>	Descriptive document for Functionality in Emergency Situations	442091TX610.pdf

<010>	Study Area Code	442091
<015>	Study Area Name	ETS TEL. CO., INC.
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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<701>	Residential Local Service Charge Effective Date	1/1/2017
<702>	Single State-wide Residential Local Service Charge	18.0

[illegible]

<010>	Study Area Code	442091
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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

[illegible]

**(800) Operating Companies
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net
<810>	Reporting Carrier	ETS Telephone Company, Inc.
<811>	Holding Company	En-Touch Systems, Inc.
<812>	Operating Company	ETS Telephone Company, Inc.

[illegible]

**(900) Tribal Lands Reporting
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<900> Does the filing entity offer tribal land services? (Y/N) No

<910> Tribal Land(s) on which ETC Serves

<920> Tribal Government Engagement Obligation

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached PDF, on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

Select Yes or No or Not Applicable

**(1000) Voice and Broadband Service Rate Comparability
Data Collection Form**

FCC Form 481

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July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<1000> Voice services rate comparability certification Yes

<1010> Attach detailed description for voice services rate comparability compliance 442091TX1010.pdf

Name of Attached Document

<1020> Broadband comparability certification Yes - Pricing is no more than the most recent applicable benchmark announced by the Wireline Competition Bureau

<1030> Attach detailed description for broadband comparability compliance 442091TX1030.pdf

Name of Attached Document

**(1100) No Terrestrial Backhaul Reporting
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<035>	Contact Telephone Number - Number of person identified in data line <030>	2812250522 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<1100> Certify whether terrestrial backhaul options exist (Y/N)

Yes

<1130> Please select the appropriate response (Yes, No, Not Applicable) to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(g).

(1200) Terms and Condition for Lifeline Customers
Lifeline
Data Collection Form

FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

442091TX1210.pdf

Name of Attached Document

<1220> Link to Public Website

HTTP

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- | | |
|--|-------------------------------------|
| <1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, | <input checked="" type="checkbox"/> |
| <1222> Details on the number of minutes provided as part of the plan, | <input checked="" type="checkbox"/> |
| <1223> Additional charges for toll calls, and rates for each such plan. | <input checked="" type="checkbox"/> |

(2005) Price Cap Carrier Additional Documentation

FCC Form 481

Data Collection Form

OMB Control No. 3060-0986/OMB Control No. 3060-0819

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

July 2013

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Select the appropriate responses below (Yes, No, Not Applicable) to note compliance as a recipient of Incremental High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e). The information reported on this form and in the documents attached below is accurate.

Incremental Connect America Phase I reporting

- <2011> 3rd Year Certification 47 CFR §54.313(b)(1)(ii) - Note that for the July 2017 certification, this applies to Round 2 recipients of Incremental Support.
- <2022> Recipient certifies, representing year three after filing a notice of acceptance of funding pursuant to 54.312(c), that the locations in question are not receiving support under the Broadband Initiatives Program or the Broadband Technology Opportunities Program for projects that will provide broadband with speeds of at least 4 Mbps/1Mbps - 54.313(b)(2)(i). Round 2 recipients only.
- <2023> The attachment on line 2024 includes a statement of the total amount of capital funding expended in the previous year in meeting Connect America Phase I deployment obligations, accompanied by a list of census blocks indicating where funding was spent. This covers year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2024A> Round 2 Recipient of Incremental Support?
- <2024B> Attach list of census blocks indicating where funding was spent in year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2025A> Round 2 Recipient of Incremental Support?
- <2025B> Attach geocoded Information for Phase I milestone reports (Round 2 for year three) - Connect America Fund , WC Docket 10-90, Report and Order, FCC 13-73, paragraph 35 (May 22, 2013).
- <2015> 2016 and future Frozen Support Certification 47 CFR § 54.313(c)(4)

Name of Attached Document Listing
Required Information

Name of Attached Document Listing
Required Information

(2005) Price Cap Carrier Additional Documentation

FCC Form 481

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OMB Control No. 3060-0986/OMB Control No. 3060-0819

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

July 2013

Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}

<2016> Certification support used to build broadband

Connect America Phase II Reporting {47 CFR § 54.313(e)}

<2017A> Connect America Fund Phase II recipient?

<2017C> Total amount of Phase II support, if any, the price cap carrier used for capital expenditures in 2016.

<2018> Attach the number, names, and addresses of community anchor institutions to which the carrier newly began providing access to broadband service in the preceding calendar year - 54.313(e)(1)(ii)(A)

Name of Attached Document Listing
Required Information

<2019> Recipient certifies that it bid on category one telecommunications and Internet access services in response to all FCC Form 470 postings seeking broadband service that meets the connectivity targets for the schools and libraries universal service support program for eligible schools and libraries located within any area in a census block where the carrier is receiving Phase II model-based support, and that such bids were at rates reasonably comparable to rates charged to eligible schools and libraries in urban areas for comparable offerings - 54.313(e)(1)(ii)(C)

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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

Select from the drop down menu or check the boxes below to note compliance with 54.313(f)(1). Privately held carriers must ensure compliance with the financial reporting requirements set forth in 47 CFR 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

(3009)	Progress Report on 5 Year Plan Carrier certifies to 54.313(f)(1)(iii)	Yes - Attach Certification	
(3010A)	Certification of Public Interest Obligations {47 CFR § 54.313(f)(1)(i)}	442091TX3010.pdf	
(3010B)	Please Provide Attachment	Name of Attached Document Listing Required Information	
(3012A)	Community Anchor Institutions {47 CFR § 54.313(f)(1)(iii)}	No - No New Community Anchors	
(3012B)	Please Provide Attachment	Name of Attached Document Listing Required Information	
(3013)	Is your company a Privately Held ROR Carrier {47 CFR § 54.313(f)(2)}	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
(3014)	If yes, does your company file the RUS annual report	(Yes/No)	<input type="radio"/> <input checked="" type="radio"/>
Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:			
(3015)	Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)		<input type="checkbox"/>
(3016)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3017)	If the response is yes on line 3014, attach your company's RUS annual report and all required documentation	Name of Attached Document Listing Required Information	
(3018)	If the response is no on line 3014, is your company audited?	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
If the response is yes on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3019)	Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers		<input checked="" type="checkbox"/>
(3020)	Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows		<input checked="" type="checkbox"/>
(3021)	Management letter and/or audit opinion issued by the independent certified public accountant that performed the company's financial audit.		<input checked="" type="checkbox"/>
If the response is no on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3022)	Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers		<input type="checkbox"/>
(3023)	Underlying information subjected to a review by an independent certified public accountant		<input type="checkbox"/>
(3024)	Underlying information subjected to an officer certification.		<input type="checkbox"/>
(3025)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3026)	Attach the worksheet listing required information	Name of Attached Document Listing Required Information	442091TX3026.pdf

(3005) Rate Of Return Carrier Additional Documentation (Continued)		FCC Form 481
Data Collection Form		OMB Control No. 3060-0986/OMB Control No. 3060-0819
		July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

Financial Data Summary

- (3027) Revenue
- (3028) Operating Expenses
- (3029) Net Income
- (3030) Telephone Plant In Service(TPIS)
- (3031) Total Assets
- (3032) Total Debt
- (3033) Total Equity
- (3034) Dividends



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4005 Rural Broadband Experiment

Authorized Rural Broadband Experiment (RBE) recipients must address the certification for public interest obligations, provide a list of newly served community anchor institutions, and provide a list of locations where broadband has been deployed.

Public Interest Obligations – FCC 14-98 (paragraphs 26-29, 78)

Please address Line 4001 regarding compliance with the Commission's public interest obligations. All RBE participants must provide a response to Line 4001.

4001. Recipient certifies that it is offering broadband to the identified locations meeting the requisite public interest obligations consistent with the category for which they were selected, including broadband speed, latency, usage capacity, and rates that are reasonably comparable to rates for comparable offerings in urban areas?

Community Anchor Institutions – FCC 14-98 (paragraph 79)

4003a. RBE participants must provide the number, names, and addresses of community anchor institutions to which they newly deployed broadband service in the preceding calendar year. On this line, please respond (yes – attach new community anchors, no – no new anchors) to indicate whether this list will be provided.

If yes to 4003A, please provide a response for 4003B.

4003b. Provide the number, names and addresses of community anchor institutions to which the recipient newly began providing access to broadband service in the preceding calendar year.

Name of Attached Document Listing Required Information

Broadband Deployment Locations – FCC 14-98 (paragraph 80)

4004a. Attach a list of geocoded locations to which broadband has been deployed as of the June 1st immediately preceding the July 1st filing deadline for the FCC Form 481.

Name of Attached Document Listing Required Information

4004b. Attach evidence demonstrating that the recipient is meeting the relevant public service obligations for the identified locations. Materials must at least detail the pricing, offered broadband speed and data usage allowances available in the relevant geographic area.

Name of Attached Document Listing Required Information

**Certification - Reporting Carrier
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
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TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	
Signature of Authorized Officer:	Date
Printed name of Authorized Officer:	
Title or position of Authorized Officer:	
Telephone number of Authorized Officer:	
Study Area Code of Reporting Carrier:	Filing Due Date for this form:
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Certification - Agent / Carrier Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<039> Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) <u>Moss Adams LLP</u> is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent:	<u>Moss Adams LLP</u>
Name of Reporting Carrier:	<u>ETS TEL. CO., INC.</u>
Signature of Authorized Officer:	<u>CERTIFIED ONLINE</u> Date: <u>06/27/2017</u>
Printed name of Authorized Officer:	<u>Brendan McMahon</u>
Title or position of Authorized Officer:	<u>VP of Finance</u>
Telephone number of Authorized Officer:	<u>2812250501 ext.</u>
Study Area Code of Reporting Carrier:	<u>442091</u> Filing Due Date for this form: <u>07/03/2017</u>
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier:	<u>ETS TEL. CO., INC.</u>
Name of Authorized Agent Firm:	<u>Moss Adams LLP</u>
Signature of Authorized Agent or Employee of Agent:	<u>CERTIFIED ONLINE</u> Date: <u>06/27/2017</u>
Name of Authorized Agent Employee:	<u>Choua Her</u>
Title or position of Authorized Agent or Employee of Agent	<u>Consulting Senior</u>
Telephone number of Authorized Agent or Employee of Agent:	<u>2093903231 ext.</u>
Study Area Code of Reporting Carrier:	<u>442091</u> Filing Due Date for this form: <u>07/03/2017</u>
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Attachments

(700) Price Offerings including Voice Rate Data Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
---	--

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	442091
<015>	Study Area Name	ETS TEL. CO., INC.
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Jonathan Baker
<035>	Contact Telephone Number - Number of person identified in data line <030>	2812250522 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

<701>	Residential Local Service Charge Effective Date	1/1/2017
<702>	Single State-wide Residential Local Service Charge	18.0

<703>

[illegible]

(710) Broadband Price Offerings Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
---	--

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	442091
<015>	Study Area Name	ETS TEL. CO., INC.
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Jonathan Baker
<035>	Contact Telephone Number - Number of person identified in data line <030>	2812250522 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	jbaker@entouchsystems.net

[illegible]

LINE 510 - SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION RULES COMPLIANCE

ETS Telephone Company, Inc., d/b/a En-Touch Systems (“the Company”) complies with applicable service quality standards and consumer protection rules for its voice and broadband services.

The rates, terms, and conditions under which the Company operates are outlined in its local exchange tariff, which is approved by the Public Utility Commission of Texas (“Texas PUC”). The tariff contains provisions regarding the Company’s customer service and protection practices.

Service quality standards for voice service are established by the Texas PUC. The Company consistently meets or exceeds those standards and provides reports to the Texas PUC, in accordance with the Texas PUC’s rules.

With regard to broadband service, the Company provisions its network and equipment to ensure that its customers can enjoy the speeds to which they subscribe. However, Internet speeds generally result from a “best effort” service and are dependent upon a number of variables, many of which are outside the control of the Company. The Company also complies with the FCC’s Open Internet rules, 47 C.F.R. §§8.3-8.11. These rules prohibit blocking, throttling, and paid prioritization, and also require the Company to publicly disclose information regarding its network management practices, performance, and the commercial terms of its broadband services.

The Company complies with any and all consumer protection obligations under state law.

The Company also complies with the following consumer best practices: (1) the Company discloses its rates and terms of service to customers; (2) the Company provides specific disclosures in its advertising; (3) the Company separately identifies carrier charges from taxes on its billing statements; (4) the Company provides ready access to customer service; (5) the Company promptly responds to consumer inquiries and complaints received from government agencies; and (6) the Company abides by policies for protection of consumer privacy.

Finally, the Company has a policy and established operating procedures that comply with the FCC’s Customer Proprietary Network Information (CPNI) rules (47 C.F.R. §§64.2001-64.2011).

LINE 610 - ABILITY TO FUNCTION IN EMERGENCY SITUATIONS

ETS Telephone Company, Inc., d/b/a En-Touch Systems (“the Company”) is able to remain functional in emergency situations for both voice and broadband service. The Company has a reasonable amount of back-up power to ensure functionality without an external power source. Back-up power is provided to the central office by use of a fixed generator and batteries that provide it with eight hours of emergency power. In addition, the Company’s field electronics have eight to 12 hours of back-up power via fixed and mobile generators and batteries.

The Company also has dense wavelength division multiplexing (“DWDM”) technology deployed in its core fiber optic network that is self-healing and will automatically reroute traffic around damaged facilities should a fiber cut occur. The Company has sufficient spare cards for its fiber optic network to provide almost instantaneous replacements should there be a card failure in the core network and proper staff in place to repair any fiber cuts in a timely manner. In addition, the Company has connectivity to the neighboring exchanges to pass traffic and also has connectivity to the LATA tandem which further provides capabilities for handling traffic.

Lastly, the Company is prepared and capable of managing traffic spikes resulting from emergency situations and has developed procedures for employees to follow during emergency situations.

LINE 1010 – VOICE SERVICES RATE COMPARABILITY

The Wireline Competition Bureau’s 2017 reasonable comparability benchmark for voice services is \$49.51, which includes the federal subscriber line charge (“SLC”).¹

In all of the exchanges served by ETS Telephone Company, Inc., d/b/a En-Touch Systems (“the Company”), as of January 1, 2017, the single-line residential local rate was \$18.00. When the federal SLC (\$6.50) is included, the total rate was \$24.50. Therefore, the Company’s pricing of fixed voice services is less than the reasonable comparability benchmark of \$49.51.

¹ *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

LINE 1030 – BROADBAND SERVICES RATE COMPARABILITY

As of January 1, 2017, ETS Telephone Company, Inc., d/b/a En-Touch Systems charges a residential rate of \$42.95 for broadband providing 20 Mbps download, 2 Mbps upload, and an unlimited usage allowance. This rate is lower than \$87.41, which is the 2017 reasonable comparability benchmark for the same offering established by the Wireline Competition Bureau.¹

¹ Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, *Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017). See also, <https://www.fcc.gov/general/reasonable-comparability-benchmark-calculator>.

LINE 1210 – TERMS & CONDITIONS OF VOICE TELEPHONY LIFELINE PLANS

Residential customers of ETS Telephone Company, Inc., d/b/a En-Touch Systems (“the Company”) who qualify for the Lifeline Program receive a discount of \$12.75 (\$9.25 federal discount + \$3.50 Texas support credit) on local voice telephony service.

In all of the Company’s exchanges, the Lifeline single-line residential rate, including the federal subscriber line charge (“SLC”), is \$11.75 (\$24.50 standard rate - \$12.75 discount).

All single-line residential customers, including Lifeline customers, have an unlimited number of minutes for calls made within their local calling area.


Toll charges for calls outside of the local calling area are determined by the long distance carrier of the customer’s choosing. Customers may elect to subscribe to toll blocking at no charge.

Lifeline Program reductions do not apply to additional services such as custom calling features. Lifeline customers may subscribe to these services, where available, at the same rates offered to other customers.

Lifeline customers may subscribe to any residential voice telephony service package that is generally available to the public and will receive a \$12.75 discount off the regular price of the package.

LINE 3010 – CERTIFICATION OF PUBLIC INTEREST OBLIGATIONS

ETS Telephone Company, Inc., d/b/a En-Touch Systems (“the Company”) hereby certifies that the Company has taken reasonable steps to provide upon reasonable request broadband service at actual speeds of at least 10 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas, and that requests for such service were met within a reasonable amount of time.



Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Consolidating Information for

En-Touch Systems, Inc.
and Subsidiary

December 31, 2016 and 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
En-Touch Systems, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of En-Touch Systems, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, stockholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

To the Board of Directors
En-Touch Systems, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of En-Touch Systems, Inc. and its subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP
Overland Park, Kansas
April 27, 2017

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EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents		
Accounts receivable, net		
Materials and supplies		
Prepayments and other current assets		
Deferred income taxes		
Total current assets		
NONCURRENT ASSETS		
Investments		
Deferred charges, net		
Other noncurrent assets		
Total noncurrent assets		
PROPERTY, PLANT, AND EQUIPMENT		
Plant in service		
Less accumulated depreciation		
Net property, plant, and equipment		
Total assets		

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' DEFICIT

	December 31,	
	2016	2015
CURRENT LIABILITIES		
Current maturities of long-term debt		
Accounts payable		
Other accrued taxes		
Advanced billings and customer deposits		
Capital lease obligation		
Other current liabilities		
Total current liabilities		
LONG-TERM DEBT		
Notes payable		
OTHER LIABILITIES AND DEFERRED CREDITS		
Capital lease obligation		
Other noncurrent liabilities		
Deferred income taxes		
Total noncurrent liabilities		
STOCKHOLDERS' DEFICIT		
Common stock (██████ voting shares authorized, issued and outstanding, ██████ par value)		
Additional paid-in capital		
Retained deficit		
Total stockholders' deficit		
Total liabilities and stockholders' deficit		

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY **CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31,	
	2016	2015
OPERATING REVENUE		
Wireline		
Video		
Broadband		
Security and alarm		
Miscellaneous		
Total operating revenue		
Uncollectible operating revenue		
Net operating revenue		
OPERATING EXPENSE		
Plant specific operations		
Plant nonspecific operations		
Video and broadband		
Depreciation and amortization		
Customer operations		
Corporate operations		
Other operating taxes		
Total operating expense		
Net operating income		
OTHER INCOME AND (EXPENSE)		
Interest expense		
Dividend income		
Other expense		
Total other expense		
INCOME BEFORE INCOME TAX		
Income tax expense		
NET INCOME		

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

	Common Stock	Additional Paid-In Capital	Retained Deficit	Total Stockholders' Deficit
BALANCE, December 31, 2014				
Net income				
BALANCE, December 31, 2015				
Net income				
BALANCE, December 31, 2016				

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization		
Amortization of loan acquisition fees		
Deferred income tax		
Patronage distributions		
Changes in operating assets and liabilities		
Accounts receivable		
Materials and supplies		
Prepayments		
Deferred charges		
Other noncurrent assets		
Accounts payable		
Other accrued taxes		
Advanced billings and customer deposits		
Other current liabilities		
Other long-term liabilities		
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant, and equipment		
Proceeds from disposition of equipment		
Net cash from investing activities		

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings		
Payments of long-term debt		
Payments on capital leases		
Deferred charges on borrowings		
Net cash from financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, beginning of year		
CASH AND CASH EQUIVALENTS, end of year		
SUPPLEMENTAL DISCLOSURE OF CASH PAID DURING THE YEAR FOR		
Interest		
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired through capital lease		

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Organization - The consolidated financial statements include the accounts of En-Touch Systems, Inc. (En-Touch Systems), its wholly-owned subsidiary ETS Telephone Company, Inc. (ETS Telephone), and ETS Telephone Company, Inc.'s wholly-owned subsidiaries ETS Cablevision, Inc. (ETS Cablevision) and En-Touch Alarm Systems, Inc. (En-Touch Alarm) which are collectively referred to as the Company.

ETS Telephone Company is a local exchange telephone company organized under the laws of the state of Delaware. ETS Telephone Company provides local exchange telecommunications service and access to the toll network, providing telecommunications services to residents of master-planned communities, multi-family dwelling units, and commercial customers in the greater Houston metropolitan area.

ETS Cablevision is a cable television company organized under the laws of the state of Delaware. ETS Cablevision provides video and broadband service to residents of master-planned communities, multi-family dwelling units, and commercial customers, also in the greater Houston metropolitan area.

En-Touch Alarm is an alarm monitoring company organized under the laws of the state of Delaware. En-Touch Alarm provides alarm and security monitoring services, as well as installation services.

Accounting policies - The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to rate-regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting principles prescribed by the Federal Communications Commission (FCC) under Part 32, *Uniform System of Accounts for Telecommunications Companies*.

Principles of consolidation - The consolidated financial statements include the accounts of En-Touch Systems, ETS Telephone, ETS Cablevision and En-Touch Alarm. All significant intercompany accounts and transactions have been eliminated.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense, interstate access revenue settlements, and deferred income taxes.

Cash and cash equivalents – For purposes of the statements of cash flows, the Company considers highly-liquid investments purchased with a maturity of three months or less that are readily convertible to known amounts of cash to be cash and cash equivalents.

Concentration of cash and uninsured cash balances - The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally-insured limits. The insured limit is \$250,000 per institution. The Company has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Advertising expenses – The Company expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2016 and 2015 were [REDACTED] and [REDACTED], respectively.

Accounts receivable - Accounts receivable are stated at the amount management expects to collect on outstanding balances. Credit is extended on a short-term basis; therefore, accounts receivable do not bear interest. The Company reviews the collectability of accounts receivable monthly based upon an analysis of outstanding receivables, historic collection information, and existing economic conditions. Receivables from subscribers are due 24 days after issuance of the subscriber bill. Receivables from other exchange carriers are due 30 days after issuance of the carrier bill. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Company management believes it has established adequate reserves for any risk associated with these receivables.

Materials and supplies - Materials and supplies consist of construction materials, digital carrier terminals, optical network terminals, and customer premise equipment and are stated at the lower of average cost or market value.

Property, plant, and equipment – Property, plant, and equipment is stated at original cost. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of additions to plant includes contracted work, direct labor, materials and allocable overheads. The cost of maintenance and repairs is charged to operating expenses. The Company records as income and capitalizes as a cost of construction the cost of financing long-term construction projects that exceed two months. This cost is based on a weighted-average interest rate on long-term debt. For the years ended December 31, 2016 and 2015, the Company had no projects that exceeded two months and had no capitalized interest.

Property, plant, and equipment are depreciated using straight-line methods over their estimated useful lives. In accordance with composite group depreciation methodology, when a portion of the Company's depreciable property, plant, and equipment is retired in the ordinary course of business, the original cost plus removal costs, less salvage, are charged to accumulated depreciation with no gain or loss recognized.

Long-lived assets - The Company reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. When such events occur, the Company determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than carrying values, the Company would determine whether an impairment loss should be recognized. No impairment losses on long-lived assets have been identified in the consolidated financial statements.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Income taxes – The Company files a consolidated federal income tax return. Federal income tax expense or benefit is allocated among the members of the consolidated group based upon each member's contribution to the federal taxable income of the consolidated group. The state of Texas does not assess a state income tax although a component of the state franchise tax can be based on net income.

The Company measures deferred tax consequences at enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The Company records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50 percent. As of December 31, 2016 and 2015, the Company had no accrued amounts related to uncertain tax positions.

Interest and penalties, if any, are recorded as interest expense and other nonoperating expense, respectively, and are excluded from income tax expense. The Company files income tax returns on a calendar year basis.

Taxes imposed by governmental authorities - The Company's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Company. These specific taxes are charged to and collected from the Company's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Revenue recognition - Monthly service fees derived from local network, broadband, video, and security and alarm services are billed in advance but recognized in the month that service is provided.

Usage sensitive revenues, such as network access (revenues earned for originating/terminating long-distance calls), and long-distance are generally billed as a per-minute charge and are billed in arrears. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Network access service revenue also includes settlements based on the Company's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year-end and, therefore, the related revenues are recorded on the books based on an estimate of the Company's costs, NECA pool earnings, and on other assumptions related to information utilized in the preparation of the Company's cost study. The studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. Revenues were decreased in 2016 by [REDACTED] and increased in 2015 by [REDACTED], for adjustments related to prior-year differences between the recorded estimates and actual revenues. Management does not anticipate that 2016 and 2015 recorded revenues will require significant adjustments in future years.

Network access service revenue includes Universal Service support revenue that is intended to compensate the Company for the cost of providing telephone service to high cost areas. Universal Service support revenue includes funds received for high cost loop support (HCLS), interstate common line support (ICLS), Connect America Fund (CAF) and other miscellaneous programs. HCLS and ICLS are based on the Company's current relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced by 5 percent each year in the determination of CAF support.

Regulation - ETS Telephone services are subject to rate regulation as follows:

- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal Service revenues are administered by Universal Service Administrative Company, based on rules established by the FCC.
- Intrastate local and toll access revenues are regulated by the Public Utilities Commission of Texas (PUCT). The FCC also has assumed preemptive authority to regulate intrastate telecommunications services, including intrastate access rates.

Other sources of revenue are not rate regulated and include video, broadband, security and alarm monitoring, long-distance, and other incidental services.

Nonregulated expenses that are directly attributable to nonregulated services are presented as video and broadband expenses. All other operating expenses and plant are related to regulated and other nonregulated revenues and include costs that jointly relate to regulated and nonregulated services.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

For interstate access settlement, USF, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

The FCC released an Order and Further Notice of Proposed Rulemaking (FNPRM) in 2016 that reforms the High Cost Program supporting rate-of-return carriers. The FCC has also created a mechanism to ensure the \$2 billion budget for Universal Service Support is not exceeded. The following changes have been implemented to modernize the program:

- Provides support for stand-alone broadband;
- Requires broadband deployment based on the number of locations lacking service and the cost of providing service;
- Requires allowances for capital investments and limits on operations expense; and
- Phases out support for areas served by a qualifying competitor.

The FNPRM also created two paths to a Connect America Fund for rate of return carriers. The model based option is voluntary and is a fixed amount of support for ten years. The legacy mechanism reforms the existing ICLS mechanism to support stand-alone broadband and will now be known as the Connect America Fund Broadband Loop Support (CAF BLS). The Company is expected to receive support under the legacy mechanism in future years.

Reclassification of amounts - Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. These reclassifications had no effect on net income or stockholders' deficit as previously reported.

Subsequent events - Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements were available to be issued.

Subsequent events have been evaluated through April 27, 2017, which is the date the financial statements were available to be issued.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Deferred Charges

Deferred charges consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Developer royalty and door fees, net		

The Company incurs charges related to the prepayment of developer royalty and door fees to obtain various access rights to potential customers from residential developers. The developer royalty and door fees are amortized over the various lives of the agreements which range from eight to ten years. Amortization expense related to the developer royalty and door fees is included in depreciation and amortization expense. For the years ended December 31, 2016 and 2015, amortization expense from prepaid developer royalty and door fees totaled [REDACTED] and [REDACTED] respectively.

Note 3 – Property, Plant, and Equipment

Major classes of property, plant, and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land		
Capital leases		
General support facilities		
Central office equipment		
Head end equipment		
Cable and wire facilities		
Customer premise equipment		
Total plant in service		

Provision has been made for depreciation of the major classes of property, plant, and equipment at straight-line composite rates as follows:

General support facilities	
Central office equipment	
Capital leases	
Head end equipment	
Cable and wire facilities	
Customer premise equipment	

The provision for depreciation on plant in service was [REDACTED] and [REDACTED], respectively, for the years ended December 31, 2016 and 2015. The provision for amortization on capital lease assets was [REDACTED] for the year ended December 31, 2016.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Retirement Benefits

The Company participates in a multi-employer pension plan with the National Telephone Cooperative Association (NTCA) that covers substantially all of its employees and is described below.

The risks of participating in multi-employer plans are different from single employer plans as follows:

(1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the Plan, the unfunded obligation of the Plan may be borne by the remaining participating employers, and (3) if the Company chooses to stop participating in the plan, the Company may be required to pay a penalty.

The Company's participation in the multi-employer plan is outlined in the table below. The information below is from the Plan's most recent Form 5500 filing which covers the Plan years 2015 and 2014. At the date the financial statements were issued, Form 5500 was not available for the year ending 2016.

Plan Name	Employer Identification Number/Plan Number	Pension Protection Act Zone Status		Employer Contributions		Company Contributions Greater than 5% of Total Plan Contributions	Funding Improvement/ Rehabilitation Plan in Place	Surcharges Imposed	Expiration Date of Collective-Bargaining Agreements	Minimum Contributions Required in the Future
		2015	2014	2016	2015					
Retirement & Security program for employees of the National Telecommunications Cooperative Association and its member systems						No	No	Yes	N/A	No

Note 5 – Accounts Receivable

Accounts receivable consist of the following at December 31:

	2016	2015
Subscribers		
Settlements and carriers		
Other		
Allowance for uncollectibles		
Total		

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Income Taxes

Income taxes reflected in the consolidated statements of income consists of the following for the years ending December 31:

	<u>2016</u>	<u>2015</u>
Deferred		

As of December 31, 2016 and 2015, the Company had a federal net operating loss carryforward of approximately [REDACTED] and [REDACTED], respectively, available to offset future federal taxable income. The federal net operating loss carryforward will expire between 2023 and 2035. The Company has a credit for prior year minimum tax, with no expiration, of [REDACTED]. Also, the Company has a general business credit of [REDACTED] that will expire in 2026.

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before taxes due to nondeductible items, nontaxable items and prior year over and under accruals.

The Company's net noncurrent deferred tax liability consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Deferred tax assets		
Net operating loss carryforward		
Allowance for uncollectibles		
Compensated absences		
Credit for alternative minimum tax paid		
Other		
Total deferred tax asset		
Deferred tax liability		
Depreciation and amortization		
Net deferred tax liability		

These amounts have been presented in the Company's financial statements as follows at December 31:

	<u>2016</u>	<u>2015</u>
Current deferred tax asset		
Noncurrent deferred tax liability		

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 7 – Long-Term Debt

Long-term debt consists of the following as of December 31:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2016</u>	<u>2015</u>
Variable term loan		2018		
Variable revolver loan		2018		
Less unamortized debt issuance costs				
Total debt				
Less current portion				
Long-term debt				

The terms of the Company's debt include a term loan commitment of [REDACTED] and a revolving loan commitment of [REDACTED]. Repayments on the notes are determined on a quarterly commitment structure based on the outstanding loan balance with final maturity in 2018. As of December 31, 2016 and 2015, the unadvanced balance of the revolving loan was [REDACTED] and [REDACTED], respectively.

The borrower has the right to select from either the Base Rate Option or the London Interbank Offered Rate (LIBOR) Option on all term and revolving loans. The borrower also has the option to convert to or renew one or more interest rate options with respect to any and all borrowings. The Base Rate Option calls for interest to be paid at a fluctuating rate per year equal to an alternate base rate plus an applicable margin. The alternate base rate is a fluctuating rate announced by CoBank that is equal to the highest of the prime rate, the federal funds effective rate plus a 0.5 percent or the adjusted LIBOR rate plus 1 percent. The LIBOR Rate Option calls for interest to be paid at a fluctuating rate equal to the adjusted LIBOR rate plus an applicable margin. The applicable margin is determined on the closing date and is based on a pricing grid which offers different rates determined by the Company's leverage ratio. It ranges from 3.25 percent to 3.50 percent for Base Rate Option borrowings and 4.25 percent and 4.50 percent on LIBOR Rate Option borrowings.

The Company's debt facility included an interest rate cap agreement with CoBank to hedge [REDACTED] of the variable debt against future increases in interest rates. Hedge accounting was not elected; therefore, changes in the fair value of the interest rate cap are recorded as increases or decreases in interest expense in the statements of income. The Company's interest rate cap agreement matured on September 30, 2015.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Long-Term Debt (continued)

Maturities of long-term debt obligations for the two years following December 31, 2016 are:

2017

2018

Less unamortized debt issuance costs



The loan agreement contains certain restrictive covenants relating to capital expenditures, additional indebtedness, debt service coverage ratio and leverage ratio. Substantially all of the assets of the Company are pledged as collateral for this debt.

In 2016, the Company retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction to the carrying amount of debt rather than as an asset. Long-term debt as of December 31, 2015, was previously reported on the balance sheet at [REDACTED] with associated [REDACTED] unamortized debt issuance costs included in deferred charges. Amortization of the debt issuance costs is reported as interest expense in the consolidated statements of income.

Note 8 – Operating Lease Commitments

The Company leases office and warehouse facilities under operating lease agreements that have various terms. Rental expense for the years ended December 31, 2016 and 2015 was [REDACTED] and [REDACTED] respectively. Although it does not intend to do so the Company has the option to opt-out of its office lease for an estimated early termination cost of [REDACTED] as of December 31, 2016. Future rental commitments required under these leases are:

2017

2018

2019

2020

2021

Thereafter

Total



EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Capital Lease

The Company leases certain property and equipment from Cisco Capital under a capital lease. The economic substance of the lease is that the Company is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Company's assets and liabilities. Assets acquired through capital leases include circuit equipment of [REDACTED] net of accumulated amortization of [REDACTED] as of as of December 31, 2016.

The lease agreements contain bargain purchase options at the end of the lease term.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of the lease inception date.

2017		
2018		
2019		
2020		
2021		
	Total minimum lease payments	
	Less amount representing interest	
	Present value of minimum lease payments	

Amortization of assets held under capital leases is included with depreciation and amortization expense.

Note 10 – Related-Party Transactions

The Company makes royalty payments to developers in all of its communities subject to the terms of each agreement. One of those communities share minority investors with an indirect shareholder of the Company, Antar Corporation. Royalties earned by communities related through the common investors were as follows for the years ended December 31:

	2016	2015
Coles Crossing		

The Company makes payments to Boston Ventures Investment Partners (BV) for management services. Management service fees charged by BV totaled [REDACTED] for each of the years ended December 31, 2016 and 2015. Accounts payable to related parties are [REDACTED] and [REDACTED] at December 31, 2016 and 2015, respectively.

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Contingencies

NECA previously requested that ETS Telephone seek clarification from the FCC regarding its eligibility for receiving NECA settlements and USF support in its current service areas. The Company believes it meets the FCC’s eligibility requirements to participate in NECA’s pools and receive USF support, but nevertheless, submitted its request for clarification to the FCC in March 2008 at NECA’s request. To date, the FCC has not ruled on the Company’s request. The Company anticipates no changes to its existing revenues as a result of its request for clarification; however, revenues in future periods may be impacted if the FCC alters the Company’s eligible telecommunications carrier status.

In 2012, the Texas Department of Revenue published a ruling on the sale of telecommunications services, concluding that telecommunications products such as telephone, Internet, and video transmission services are not eligible for a cost of goods sold deduction because the telecommunications services did not meet the definition of “goods.” The Company has addressed this clarification in its 2016 franchise tax year filing. While it is unknown if claims will be made, the Company has estimated its potential exposure for franchise tax of approximately [REDACTED] for returns filed using pre-clarification methods.

Note 12 – Commitments

During 2014, the Company signed a joint marketing and distribution agreement with TiVo that requires certain minimum payments to be made over the five-year term of the agreement. As of December 31, 2016, future minimum commitments required by the agreement are:

2017	[REDACTED]
2018	
2019	
Total	

CONSOLIDATING INFORMATION

REPORT OF INDEPENDENT AUDITORS ON CONSOLIDATING INFORMATION

To the Board of Directors
En-Touch Systems, Inc.

We have audited the consolidated financial statements of En-Touch Systems, Inc. and its subsidiary as of and for the year ended December 31, 2016 and have issued our report thereon dated April 27, 2017 which contained an unmodified opinion on those consolidated financial statements, and appears on page 1. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis of the consolidated financial statements, rather than to present financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Overland Park, Kansas
April 27, 2017

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EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

ASSETS

	<u>En-Touch Systems, Inc.</u>	<u>ETS Telephone</u>	<u>ETS Cablevision</u>	<u>En-Touch Alarm Systems</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS						
Cash and cash equivalents						
Accounts receivable, net						
Materials and supplies						
Prepayments and other current assets						
Deferred income taxes						
Total current assets						
NONCURRENT ASSETS						
Accounts receivable, affiliates						
Investments						
Investment in affiliates						
Deferred charges, net						
Other noncurrent assets						
Total noncurrent assets						
PROPERTY, PLANT, AND EQUIPMENT						
Plant in service						
Less accumulated depreciation						
Net property, plant, and equipment						
Total assets						

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

LIABILITIES AND STOCKHOLDERS' DEFICIT

	<u>En-Touch Systems, Inc.</u>	<u>ETS Telephone</u>	<u>ETS Cablevision</u>	<u>En-Touch Alarm Systems</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES						
Current maturities of long-term debt						
Accounts payable						
Other accrued taxes						
Advanced billings and customer deposits						
Capital lease obligation						
Other current liabilities						
Total current liabilities						
LONG-TERM DEBT						
Notes payable						
OTHER LIABILITIES AND DEFERRED CREDITS						
Accounts payable, affiliates						
Capital lease obligation						
Other noncurrent liabilities						
Deferred income taxes						
Total noncurrent liabilities						
STOCKHOLDERS' DEFICIT						
Common stock						
Additional paid-in capital						
Retained deficit						
Total stockholders' deficit						
Total liabilities and stockholders' deficit						

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY **CONSOLIDATING STATEMENT OF INCOME** **YEAR ENDED DECEMBER 31, 2016**

	En-Touch Systems, Inc.	ETS Telephone	ETS Cablevision	En-Touch Alarm Systems	Eliminations	Consolidated
OPERATING REVENUE						
Wireline						
Video						
Broadband						
Security and alarm						
Miscellaneous						
Total operating revenue						
Uncollectible operating revenue						
Net operating revenue						
OPERATING EXPENSE						
Plant specific operations						
Plant nonspecific operations						
Video and broadband						
Depreciation and amortization						
Customer operations						
Corporate operations						
Other operating taxes						
Total operating expense						
INCOME (LOSS) FROM OPERATIONS						
OTHER INCOME (EXPENSE)						
Interest expense						
Dividend income						
Other expense						
Income from subsidiaries						
Total other income (expense)						
INCOME BEFORE INCOME TAX						
Income tax expense (benefit)						
NET INCOME						

**EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF STOCKHOLDERS' DEFICIT
YEAR ENDED DECEMBER 31, 2016**

	<u>En-Touch Systems, Inc.</u>	<u>ETS Telephone</u>	<u>ETS Cablevision</u>	<u>En-Touch Alarm Systems</u>	<u>Eliminations</u>	<u>Consolidated</u>
COMMON STOCK						
Balance, beginning and end of year						
ADDITIONAL PAID-IN CAPITAL						
Balance, beginning and end of year						
RETAINED EARNINGS (DEFICIT)						
Balance, beginning of year						
Net income						
Balance, end of year						
Total stockholders' deficit						

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	En-Touch Systems, Inc.	ETS Telephone	ETS Cablevision	En-Touch Alarm Systems	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income						
Adjustments to reconcile net income to net cash from operating activities						
Depreciation and amortization						
Amortization of loan acquisition fees						
Deferred tax						
Patronage distributions						
Earnings from subsidiaries						
Change in operating assets and liabilities						
Accounts receivable						
Materials and supplies						
Prepayments						
Deferred charges						
Accounts payable						
Other accrued tax						
Advanced billings and customer deposits						
Other current liabilities						
Other long-term liabilities						
Net cash from operating activities						
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions to property, plant, and equipment						
Proceeds from disposition of equipment						
Net cash from investing activities						

EN-TOUCH SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	<u>En-Touch Systems, Inc.</u>	<u>ETS Telephone</u>	<u>ETS Cablevision</u>	<u>En-Touch Alarm Systems</u>	<u>Eliminations</u>	<u>Consolidated</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Net changes in affiliate payables/receivables						
Principal payments						
Proceeds from borrowings						
Payments on capital leases						
Deferred charges on borrowings						
Net cash from financing activities						
NET CHANGE IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents						
Beginning of year						
End of year						